

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Leach & Battin Analyst: Kristina E. North Bill Number: AB 149

Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: January 13, 2000

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** Household and Dependent Care Service Refundable Credit/FTB To Report To Legislature Regarding Credit Utilization

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended January 3, 2000.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED January 3, 2000, STILL APPLIES.

X OTHER - See comments below.

### SUMMARY OF BILL

For the 2000 and 2001 tax years, this bill would allow taxpayers with an adjusted gross income (AGI) of \$100,000, or less, an employment-related child and dependent care credit equal to a specified percentage of the federal credit.

### SUMMARY OF AMENDMENT

The January 13, 2000, amendment would refund to a taxpayer any credit amount that exceeds the taxpayer's tax liability, thereby making this credit refundable. This amendment would require the Franchise Tax Board (FTB) to annually report to the Legislature, to the extent data are available, on the utilization of the credit.

The legislative and program histories, as well as current law discussion, in the analysis dated December 19, 1999, remain unchanged. New policy and implementation considerations and a new revenue estimate presented below reflect the changes in the bill as amended January 13, 2000. The previously stated technical considerations are restated below.

#### Policy Consideration

Historically, refundable credits (such as the state renter's credit, the federal Earned Income Tax Credit and the federal farm gas credit) have had significant problems with fraud.

#### Implementation Considerations

The department has not administered a refundable tax credit under the Personal Income Tax Law (PITL) since the refundable renter's credit was suspended in 1993. Establishing a refundable tax credit program would have a significant impact on the department's programs and operations and require extensive changes to forms and systems.

#### Board Position:

<u>      </u> S	<u>      </u> NA	<u>      </u> NP
<u>      </u> SA	<u>      </u> O	<u>      </u> NAR
<u>      </u> N	<u>      </u> OUA	<u>  X  </u> PENDING

#### Legislative Director

#### Date

Johnnie Lou Rosas

2/1/00

### **Technical Considerations**

To clarify the author's intent that the credit percentage of the federal credit amount should be based on California AGI, Amendment 1 is provided.

Under current federal law, applicable for years 1998 through 2001, Internal Revenue Code Section 26 does not act to limit the availability of the federal child care credit. Thus, paragraph (2) of subdivision (a) of Section 17052.6 is unnecessary. Once that paragraph is removed, subdivision (a) would need minor modifications to indicate that only one limitation exists.

### **LEGISLATIVELY MANDATED REPORTS**

The FTB would be required to annually report to the Legislature, to the extent data are available, on the utilization of the credit. The report would include the number and filing status of taxpayers who claim the credit; the distribution of credit utilization by adjusted gross income class; the distribution of taxpayers claiming credits for child care versus adult dependent care; and any other information the FTB deems relevant to enable the Legislature to ascertain utilization of this tax credit.

### **FISCAL IMPACT**

#### **Departmental Costs**

The addition of a refundable credit would have a major impact on the operations and procedures of this department. It is estimated that the costs would be over \$1 million.

#### **Tax Revenue Estimate**

Revenue losses under the PITL are estimated to be:

AB 149, As Amended January 13, 2000 Effective Beginning January 1, 2000 Assumed Enactment After June 30, 2000 (Millions*)	
2000/2001	2001/2002
-\$94	-\$95

\*After rounding

The following table provides a distribution for tax year 2000 for taxpayers within the specified AGI classes:

2000 Tax Year		
Adjusted Gross Income Class	Number of Returns (thousands)	Total Credits (\$ millions)
Less than \$40,000	280	-\$44
40,000 to 70,000	248	-\$35
70,000 to 100,000	143	-\$15
100,000 and over	-	-
Totals	671	-\$94

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

**Tax Revenue Discussion**

Revenue losses under the PITL would depend on the number of taxpayers with adjusted gross incomes below \$100,000 who would be eligible for the federal household and dependent care credit.

The above estimates were based on simulations using the department's personal income tax model. Special programming was done to reflect the federal law and phase-out effects.

**BOARD POSITION**

Pending.

Analyst	Kristina E. North
Telephone #	845-6978
Attorney	Patrick Kusiak

FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO AB 149  
As Amended January 13, 2000

**AMENDMENT 1**

On page 2, line 20, after "the" and before "adjusted gross income"  
insert:

California